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SHIP SUBSIDIES AND THE FUTURE OF WORLD SHIPPING

by

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with the aid of the Research Staff of the Foreign Policy Association

INTRODUCTION

THE inquiry into ocean and air mail contracts conducted by a special Senate Committee presided over by Senator Hugo L. Black has once more focussed attention on the merchant marine policy of the United States. The investigation has revealed some shocking abuses in the administration of our ship subsidizing policy. Steamship companies have engaged in extensive propaganda and lobbying activities, and in some instances have shown readiness to confer favors on influential persons in order to procure and perpetuate liberal subsidies from the government. Certain individuals and companies have diverted to their own profit a substantial part of the subsidies granted for the development of the merchant marine.

The administration has already expressed the intention of eradicating these abuses. The President has authority under the law to cancel and modify existing mail contracts. Investigations have already been launched by the Shipping Board Bureau, recently reorganized under the jurisdiction of the Department of Commerce, as well as by the Post Office Department and the Attorney-General.[1] The government has an opportunity not only to eliminate the abuses and irregularities which have crept into the subsidy system, but also to reconsider the fundamental aim of our entire merchant marine policy. The administration has two alternatives: it may continue the present policy of encouraging, in competition with other countries, the expansion of American shipping, or strive in cooperation with other governments to develop a program which will rescue the international shipping industry from its present plight.

Ever since the war shipping has suffered from a chronic depression induced by surplus tonnage, excessive and wasteful competition, and unremunerative freight rates. It is perhaps the only truly international industry; yet few attempts have been made by governments to subject it to some measure of international control or to harmonize and coordinate their conflicting national shipping policies. At the World Economic Conference held in the summer of 1933, the nations of the world for the first time discussed ways and means of mitigating the shipping depression. No remedies, however, were adopted, in part because the measures proposed were hastily devised and inadequately considered, in part because the American delegation took a wholly negative attitude. Since that time the United States has apparently somewhat altered its policy. The Secretary of Commerce himself has acknowledged that "there is an excess of tonage in the industry now, and the government desires to adhere to a policy that will stabilize rather than disturb the industry . . . ."[2]

Consideration of specific remedies, national or international, for the present plight of world shipping must be preceded by an analysis of the problems to be met, and of the ways in which they have been aggravated by national policies, particularly that of the United States. In 1933 the total merchant marine tonnage in the world, including ships of 100 tons and over, was 38 per cent greater than in 1914, although the volume of world trade in 1932 had declined 7 per cent[3] below that of 1913. The disparity between available tonnage and the volume of trade is actually even greater because technical improvements, especially in fueling and propulsion, have enlarged the carrying capacity of ships, not only by increasing their speed on the average more than 10 per cent since 1914,[4] but by reducing the volume of fuel consumption and the time necessary for

1. *New York Times*, January 21, 23, 1934.

2. *Ibid.*, January 23, 1934.

3. This percentage is calculated from figures in the League of Nations publications, *World Economic Survey 1931-2*, p. 23-4, and *Review of World Trade 1932*, p. 20. The fall in the volume of water-borne international trade is probably greater, since the creation of many new countries in Europe at the end of the World War has turned a portion of what was formerly internal commerce into international trade.

4. S. A. D. Helander, *Die internationale Schiffahrtskrise und ihre weltwirtschaftliche Bedeutung* (Jena, G. Fischer, 1928), p. 74. The same author believes that the multiplication of liner services since 1913 has also caused international trade to be carried more directly, thus further reducing the demand for tonnage.

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bunkering.[5] On July 1, 1933, no less than 11,473,000 tons of the world's ships were idle,[6] while a considerable tonnage was being operated at a loss.

WARTIME EXPANSION OF AMERICAN SHIPPING

The United States has made the largest contribution to the size of the world's merchant marine since 1914. American tonnage has advanced roughly eight million tons—no less than 149 per cent. British critics of American policy frequently cite this fact in attributing to the United States the major share of the blame for the deplorable state of international shipping, but it is only fair to point out that this charge is at least in part undeserved. This unparalleled increase is due chiefly to the enormous wartime shipbuilding program on which the American government embarked in response to war needs and which, incidentally, at that time proved an invaluable aid to the Allies. Since 1920 the size of the American merchant fleet has actually declined. Moreover, many ships have gone into the coasting trade and so do not compete with foreign tonnage. The tonnage employed in foreign trade, after jumping from only 1,066,288 in 1914 to no less than 11,077,398 in 1921, had declined by June 30, 1933 to 4,700,802.[7] Since the completion of the war program, new ship construction in the United States has also been rather small, amounting to but 1,703,156 tons or 7.3 per cent of the entire world output since 1921.[8]

Development of the Merchant Marine (including vessels of 100 gross tons or more) in the Principal Maritime Countries of the World*

	1900		1914		1920		1929		1933	
	Tonnage	*Index*	*Tonnage*	*Index*	*Tonnage*	*Index*	*Tonnage*	*Index*	*Tonnage*	*Index*
United States ..	2,836,235	53	5,368,194	100	16,049,289	299	14,482,022	270	13,357,799	249
British	14,261,254	68	21,045,049	100	20,582,652	97	23,116,147	109	21,819,687	104
Danish	519,011	63	820,181	100	803,411	98	1,055,867	128	1,168,071	142
Dutch	530,277	35	1,496,455	100	1,793,396	120	2,939,067	197	2,765,457	181
French	1,350,562	58	2,319,438	100	3,245,194	140	3,378,662	145	3,512,219	150
German	2,650,033	48	5,459,296	100	672,671	12	4,092,552	75	3,901,274	71
Greek	245,094	29	836,868	100	530,261	63	1,266,685	151	1,417,071	170
Italian	983,655	58	1,668,296	100	2,242,393	134	3,284,660	191	3,149,807	188
Japanese	574,557	34	1,708,386	100	2,995,878	175	4,186,652	245	4,258,159	249
Norwegian	1,640,812	65	2,504,722	100	2,219,388	90	3,224,493	128	4,079,540	162
Spanish	694,780	77	898,823	100	997,030	111	1,161,591	129	1,232,456	137
Swedish	637,272	57	1,118,086	100	1,072,925	96	1,510,125	135	1,674,974	149
Total including all other countries	29,043,728	59	49,089,522	100	57,314,065	117	68,074,312	139	67,920,185	138

*Source: *Lloyd's Register of Shipping.*

Next to the American, the expansion of the Japanese merchant marine has been most marked, both before and after 1914. The Italian fleet, too, has steadily forged ahead. Germany has since the war energetically replaced the efficient ocean-going merchant marine of which it was deprived by the peace settlement. Great Britain, although not increasing its tonnage, has indirectly contributed to the surplus by continuing its regular practice of replacing old vessels and disposing of them to nations such as Greece, which can continue them in service owing to lower operating costs.

The over-tonnaging of the world's merchant marine is attributable to three factors: the war and its consequences; the decline of world trade; and nationalist shipping policies.

Despite the destruction of about 12,500,000 tons of shipping during the war,[9] the year 1920 showed a net addition of about 8,000,000 tons over 1914. Almost every country embarked on a feverish construction program to fill up the gaps created by submarine and mine warfare and to meet the ever-expanding demand for the conveyance of war supplies and troops. In most cases, especially in the United States, these programs could not be immediately liquidated on the conclusion of the war. Moreover, the continuing boom in freight rates during the first post-war years encouraged a mistaken impression in some quarters that additional building was economically justifiable.[10]

For the diminution of world trade the nationalistic economic policies pursued since the war have undoubtedly been largely respon-

5. H. C. Calvin and E. G. Stuart, *The Merchant Shipping Industry* (New York, 1925), p. 10-19. Brassey's *Naval and Shipping Annual for 1926* (p. 526) gives the following comparison of the load or freight-paying capacity of ships according to types:

Ship	*Tonnage*	*Fuel tonnage for 16-day voyage*	*Tonnage available for freight*
Coal Steamer	10,230	856	7880
Oil Steamer	10,235	600	8555
Turbine Steamer	10,235	472	8743
Diesel Motorship	10.050	194	9757

6. Cf. *Foreign Shipping News*, No. 460. Of this total, 3,243,000 tons were American vessels, and 3,207,000 British ships.

7. U. S. Department of Commerce, Bureau of Navigation, *Merchant Marine Statistics 1933*, p. 31. On December 31, 1933 sea-going tonnage, 1,000 gross tons and over, totalled 9,261,959 gross tons, including 2,716,241 tons in foreign trade, 3,726,955 in the coastwise trade, and 2,818,763 laid up. Cf. Department of Commerce, Shipping Board Bureau, Division of Research, *Report No. 300*, December 31, 1933.

8. Cf. *Lloyd's Register of Shipping, 1933-34*, Vol. II, p. 118-9.

9. J. A. Salter, *Allied Shipping Control, and Experiment in International Administration* (Oxford, Clarendon Press, 1921), p. 355-9.

10. The charter freight index of *The Economist* (London) stood at 439 in 1920 and dropped to 158 in 1929 as compared with 100 in 1913.

sible.[11] Apparently few of the leading maritime powers perceived the inconsistency of a policy which encouraged the development of national merchant marines while at the same time curtailing the flow of international trade by every known device. It is almost superfluous to suggest that only a revival of foreign commerce can ultimately bring sound relief to the shipping industry.

The surplus of shipping facilities since the war has engendered such competition among steamship companies as to encourage additional building of more modern and faster ships. On the North Atlantic rival shipping lines, supported in most cases by their respective governments, have vied in the construction of speedy and luxuriously appointed passenger ships contending for the blue riband of the Atlantic. In freight traffic faster and more specialized services have been offered.

If nations were content to have shipping services performed by those countries able to render them most economically, the number of vessels would probably not far exceed the requirements of the traffic. A merchant marine, however, is a factor of such national importance in war as well as peace that few nations wish to be wholly dependent on foreign shipping. For countries which have distant colonial and imperial possessions, such as Great Britain, the Netherlands and France, shipping connections with these areas are indispensable. Countries which depend on foreign sources for necessary raw materials and food supplies, and on foreign markets for the disposal of a large part of their national production, will not consent to rely on foreign ships alone. If requirements in this respect are measured by the proportion of foreign trade to total national production, the needs of Great Britain are substantially greater than those of the United States. Many nations also regard a national merchant marine as a valuable adjunct to a policy of commercial expansion abroad.

SHIPPING AND NATIONAL DEFENSE

But it is especially the value of a merchant marine in time of war that is held to justify assistance to national shipping. During the last war merchant vessels were conscripted in practically all belligerent countries. Ships played such a crucial rôle that the entire machinery of inter-Allied economic cooperation centred in the Allied Maritime Transport Council. Sir Arthur Salter, the directing genius of this body, has thus described the key position occupied by shipping:

> "Month by month as the war proceeded, as the needs of imported war supplies increased, and as the number of ships to import them diminished, those responsible for the supplies of the Army, for the food of the civilian population, and for the raw materials for every form of industrial or military manufacture, found themselves more and more in the position of having to frame their programs and direct their policy in accordance with the number of ships which they would be able to secure."[12]

The wartime chairman of the United States' Shipping Board, Edward N. Hurley, has described in detail the shipbuilding program which created that "bridge to France" over which American troops, munitions and supplies went to the aid of the Allied cause.[13]

Merchant vessels also rendered valuable military aid during the World War. The crews were enlisted for service on battleships, and many vessels served in the British navy with full combatant status. Even though less effective as fighting units than in previous wars, merchant ships were usefully employed in policing the seas.[14]

All these considerations of national policy have led maritime countries to subsidize shipping in varying degrees. This aid has taken a bewildering variety of forms: government operation of ships; government participation in shipping enterprises; construction and navigation bounties; contracts for the carriage of mails or for the maintenance of specified shipping services; government or government-guaranteed credits; reservation of coasting trade to national vessels; tariff drawbacks on shipbuilding materials and other tax exemptions, etc.[15] The form and cost of this assistance in the United States as compared with other countries deserve analysis.

MERCHANT MARINE POLICY OF THE UNITED STATES

American shipping has not always been dependent on government assistance for its existence. In the era of wooden sailing ships the United States was a leading maritime country. In 1830 no less than 90 per cent of American foreign trade was carried in native bottoms. When steamers were already crossing the Atlantic regularly, the introduction of the clipper ship in the late

11. To a minor extent the relative decline in trade volume may be ascribed to a natural post-war trend toward the shipment of a larger proportion of semi-finished and finished products as compared with more bulky raw materials. Helander, *op. cit.*, p. 62-5.

12. J. A. Salter, *op. cit.*, p. 4. According to another British authority, "the whole effort of Great Britain, a great part of the fighting strength of her Allies, depended, directly or indirectly, on the activities of the ships." Cf. C. E. Fayle, *The War and the Shipping Industry* (London, Oxford University Press, 1927), p. 1.

13. Edward N. Hurley, *The Bridge to France* (Philadelphia, Lippincott, 1927).

14. C. E. Fayle, *A Short History of the World's Shipping Industry* (London, Allen & Unwin, 1933), p. 317. Cf. also Admiral T. P. Magruder, "Sea Power and the Merchant Marine," *Saturday Evening Post*, March 3, 1928, p. 10.

15. Cf. U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, *Trade Promotion Series No. 129*, J. E. Saugstad, "Shipping and Shipbuilding Subsidies" (Washington, Government Printing Office, 1932).

forties continued for another decade the golden age of American shipping.[16]

The rapid decline which set in after 1860 is attributable to the increasing absorption of Americans in westward expansion and internal development, as well as to the rapid transition from sailing vessels to iron and steel steamships in which Great Britain, with its advanced industry, easily became superior to the United States. By 1900 only 8.7 per cent of our foreign trade moved in American ships; by 1913 only 10 per cent.

It was not until 1916 that the American government came aggressively to the aid of the shipping industry. To be sure, some aid was sporadically given, but it was not sufficient to rescue the merchant marine from the doldrums. From 1847-1858 some steamship services were established with the aid of mail subventions, but the entire amount expended did not exceed $14,400,000.[17] Again, from 1864 to 1877 some $6,505,000 was spent in mail subsidies to establish steamship lines to Brazil, Hawaii, and the Far East.[18] In 1891 Congress passed the Ocean Mail Act which remained on the statute books until 1928. It authorized the Postmaster-General to conclude with American steamship lines five or ten-year mail contracts, providing compensation at specified rates per mile varying in accordance with the tonnage and speed of the vessels.[19] The rates, however, were not high enough to attract many bids, and the Act never proved a powerful stimulant to American shipping.[20]

THE 1916 SHIPPING ACT

With the advent of the World War the conviction spread that the United States should build up its merchant marine. Freight rates were booming, and the enlistment of a large part of freight tonnage for immediate war needs created a shortage of shipping facilities. The construction of a merchant marine also became an integral part of the general "preparedness" campaign of that time. In 1916 Congress passed the Shipping Act which, together with the Merchant Marine Acts of 1920 and 1928, still forms the basis of American shipping policy. The Act[21] created a Shipping Board[22] empowered to construct, or to purchase, lease or charter vessels suitable, as far as compatible with commercial requirements, for military and naval purposes. For this purpose the board was authorized to set up a government corporation capitalized at $50,000,000.[23]

Although the Act did not originally contemplate extensive government ownership and operation of vessels, its provisions enabled the Shipping Board and its subsidiary, the Emergency Fleet Corporation, to embark on a wartime program resulting in the acquisition of no less than 2,546 ships, aggregating 14,703,719 dead-weight tons.[24] With the exception of about a million tons seized from the enemy or purchased, all these vessels were built under the direction of the Fleet Corporation.[25] On the termination of the war the construction program was considerably curtailed, and in May 1922 the last ship was delivered.[26]

MERCHANT MARINE ACT OF 1920

The Merchant Marine Act of June 5, 1920 provided for liquidation of the wartime program and laid the basis for a permanent peace-time shipping policy. In the preamble the Act declared

> "That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated by citizens of the United States . . ."[27]

In accordance with this principle, the Shipping Board was directed to sell its ships to American citizens as soon as practicable, provided such sales were consistent with good business principles. It was to map out such steamship lines as would be desirable for the development of American foreign and

16. Cf. Fayle, *op. cit.*, p. 228-35.
17. Cf. Saugstad, *op. cit.*, p. 50-7; also Royal Meeker, *History of Shipping Subsidies* (New York, Columbia University Press, 1905), p. 154.
18. Saugstad, *op. cit.*, p. 57-9.
19. The authorized compensation was as follows:

Vessels with a gross tonnage not less than	*Speed in knots*	*Compensation per mile on outward voyage*
8,000 tons	20	$4.00
5,000 "	16	2.00
2,500 "	14	1.00
1,500 "	12	.66 2/3

By law of March 3, 1917 an additional classification was made for vessels of at least 3,500 gross tons and a speed of 30 knots, the rate of pay being $8 per mile. Vessels in these subsidized services required the approval of the Secretary of the Navy and had to be suitable for the mounting of at least four 6-inch guns. Cf. Saugstad, *op. cit.*, p. 60.

20. Only eleven contracts were originally awarded. In 1894 only four were in force; in 1899, five; in 1905, eight; and in 1913, six. Mail payments under the Act totalled $29,630,929 up to 1924. The major part of this sum—$15,597,765—went to the America Line's services to Antwerp and Southampton. In this way the law did assist materially in the establishment and maintenance of the America Line's fast steamer service to Europe. The remainder of the subsidy was paid to lines from San Francisco to Australia and Tahiti, from New York to Venezuela, Vera Cruz and Havana, and from Boston and Philadelphia to Jamaica. Saugstad, *op. cit.*, p. 61-3.

21. S 39 Stat. L., 728.
22. The board's original membership of five was enlarged to seven in 1920 and reduced to three by the Economy Act of June 30, 1932. As a result of the governmental reorganization effected in the summer of 1933, the board was abolished and its functions transferred to a Shipping Board Bureau placed under the jurisdiction of the Secretary of Commerce. For a study of the Board, cf. D. H. Smith and P. V. Betters, *The United States' Shipping Board, its History, Activities and Organization* (Washington, The Brookings Institution, 1931).
23. In addition, the board was instructed to make studies of marine insurance and of the relative cost of operating and constructing American and foreign ships. The Act also charged the board with certain regulatory functions over shipping and the enforcement of specific prohibited practices.
24. Dead-weight tonnage expresses the lifting capacity of a ship, one ton equalling 2,240 pounds. Gross tonnage expresses the capacity of spaces within the ship for cargo, passengers, stores and crew, the ton in this case being equivalent to 100 cubic feet.
25. For a table showing the vessel property acquired by the Shipping Board according to origin, cf. *Seventeenth Annual Report of the Shipping Board*, p. 78-81.
26. Contracts for 958 ships, totalling 4,770,565 dead-weight tons, were cancelled. Cf. *Sixth Annual Report of the Shipping Board*, p. 156.
27. 41 Stat. L., 988.

coastwise trade and the maintenance of an adequate postal service. Responsible Americans, willing to establish and operate these lines, were to be enabled to buy or charter vessels from the board "upon such terms of payment and other conditions as the Board may deem just and necessary to secure and maintain the service desired." Lines for which no purchasers could be found were to be operated by the Shipping Board itself until they became self-sustaining or until their further maintenance became unbusinesslike and against the public interest.

To stimulate the construction of new vessels by private interests, the Act authorized the board to set aside from sales revenues a sum not exceeding $125,000,000 out of which loans might be made at low interest rates to aid in the construction, equipment or reconditioning of vessels most suitable for operation on the steamship lines established by the board. Furthermore, the Postmaster-General was empowered to enter into contracts, within the limits of Congressional appropriations, for the carriage of mail in American ships at "just and reasonable" rates to be determined by him.

THE JONES-WHITE LAW (1928)

Disappointed with the effect of the 1920 Act, particularly in its failure to stimulate new construction, Congress in 1928 passed the so-called Jones-White bill. Aside from doubling the authorized size of the construction loan fund, this law created a liberal mail subsidy system. The maximum rates per mile specified in the Ocean Mail Act of 1891 were substantially increased. To bring about the replacement or improvement of old and obsolescent ships, the Postmaster-General was authorized to include in the mail contracts, which could be let for a maximum period of ten years, provisions requiring the construction of new ships or the reconditioning of old vessels. Specifications for such new construction were made subject to the approval of the Secretary of the Navy, so as to make the ships suitable for military or naval purposes. Moreover, at least one half of the crews of ships under mail contract were required to consist of American citizens during the first four years of the law's operation, and two-thirds thereafter.[27a]

The assistance given in these ways to the American merchant marine is intended to cover the greater cost of building and operating American as compared with foreign ships. The exact amount of these differences has always occasioned dispute, because their scientific determination is beset with many difficulties. One study made for the Shipping Board in 1926 concluded that it cost on the average one-third more to build ships in the United States than in Great Britain;[28] another in 1931 placed the differential at 46.5 per cent, varying from 15 per cent for super-liners and 30 per cent for passenger ships, up to 51 per cent for freighters.[29] These differences are due to the higher cost of both materials and labor in the United States. The heavier operating costs are ascribed primarily to the higher wage scale of American seamen, and in part to greater subsistence allowances for American crews.[30]

It is difficult to calculate the amount in subsidies extended to the merchant marine in compensation for these cost differentials. From its inception until July 1, 1933 the Shipping Board has received a net appropriation of $3,651,154,008.68,[31] but since practically all of this was spent during the war for wartime needs, it would be unfair to label this entire sum as a subsidy. Some attempt may be made to estimate the value of the aid extended since the war in the following ways: government operation of ships; sales of government ships at prices lower than those prevailing on the world market; mail subventions; and government loans.

GOVERNMENT SHIP OPERATION

While carrying out the policy of gradually liquidating its merchant fleet, the government has continued even to this day to own and operate ships, and the losses so incurred may reasonably be regarded as a direct subsidy. Immediately after the war the Shipping Board established an extensive network of steamship lines, connecting American ports on all coasts with almost every section of the world. In June 1922, 359 government ships were being operated on 78 trade routes, but this number was gradually diminished, so that by June 30, 1933 only 38 vessels were serving on 5 routes.[32] The total operating losses incurred by the government on its fleet over the past twelve years amount to about $247,000,000.[33]

27a. It should be noted also that ships aided by construction loans or mail subsidies may be requisitioned, without any enhancement in value, for national defense or any other public emergency.

28. A. H. Haag, *Report to the Merchant Marine Planning Committee of the United States' Shipping Board on the Handicaps against American Ships engaged in Foreign Trade*, January 3, 1927 (mimeographed).

29. U. S. Shipping Board, *Data relating to Shipbuilding Cost Differentials issued by the Bureau of Construction*, March 15, 1932.

30. For a comparison of the wages of American and foreign seamen, cf. U. S. Bureau of Navigation, *Merchant Marine Statistics, 1933*, p. 86.

31. *Seventeenth Annual Report of the U. S. Shipping Board*, Appendix, Table IX.

32. *Ibid.*, p. 6, 54. The 38 vessels active on June 30, 1933 aggregated 329,970 dead-weight tons. With the exception of the United States Lines, the ships were not operated directly by the board or the Fleet Corporation, but by private companies receiving a commission consisting of either a percentage of the gross freight revenues or a lump sum.

33. Losses for the years 1922-1927 inclusive are taken from Smith and Betters, *The United States' Shipping Board*, cited, p. 81; for the remaining years, from the annual reports of the Shipping Board. The total excludes the cost of maintaining idle vessels, the number of which has always been large. On June 30, 1921 the laid-up fleet totalled 5,537,752 dead-weight tons; on June 30, 1928, 3,814,681 tons; and on June 30, 1933, 2,106,365 tons.

LIQUIDATION OF THE GOVERNMENT FLEET

In selling its ships, practically all constructed at high wartime costs, the government was compelled to take enormous losses.[34] Owing to the large tonnage surplus in the world, the Shipping Board was repeatedly forced to reduce its prices and to make the terms of payment more attractive.[35] The exact extent to which American shipowners profited from this opportunity to procure ships at very low prices is uncertain. The Shipping Board made deliberate concessions below the world market price only in disposing of its liner services. Thus the steamship companies at present holding mail contracts acquired vessels from the government at a cost about $35,861,385 below world market prices.[36] In return, purchasers of the board's steamship lines were required to continue operation of these services for five, and in some cases ten, years.[37]

MAIL SUBVENTIONS

The mail contracts let under the Merchant Marine Acts are not designed to compensate shipowners for carrying mail but to enable them, through a subsidy, to maintain specified steamship lines.[38] Under the 1920 Act only six mail contracts, entailing payments of $4,801,953, were awarded,[39] but since the enactment of the Jones-White law in 1928 the Postmaster-General has entered into no less than forty-five contracts calling for the payment of approximately $312,684,394 over a ten-year period.[40] Only a small part of this sum would be sufficient to cover the actual cost of carrying the mail. Thus the companies who received mail contract payments of $89,646,364 over the last five fiscal years would have been paid only $12,935,546 had their vessels carried the mail on a weight basis.[41] In 1932 the mail subsidy constituted about 19 per cent of the gross revenue of these companies.[42] That same year the payment to one line exceeded by $93,077 the book value of its vessels.[43]

In return for this subsidy the contractors have undertaken not only to maintain service on their contract routes with ships the number, speed and type of which are specified, but also to construct and/or recondition a number of vessels. By June 30, 1933 the major part of these requirements had been fulfilled; 32 new vessels totalling 363,027 tons had been added to the American merchant marine, while 40 ships aggregating 221,520 tons had been reconstructed.[44]

BUILDING PROGRAM UNDER MAIL CONTRACTS[45]

	No. of vessels	*Approximate tonnage*	*Cost*
Required new construction ..	54	529,982	$196,848,128
Conditional new construction ..	12	119,911	62,876,135
Required reconstruction ..	61	311,340	21,131,659
Total	127	961,233	$280,855,922

The mail contracts must be let only after competitive bidding. In accordance with the law, the Postmaster-General certified what mail routes should be established, equitably distributed to serve the Atlantic, Gulf and Pacific Coast ports, and the Shipping Board then specified the type, size, speed, and other characteristics of the vessels to be employed, the frequency of the service, etc.[46] Bids were then invited by the Post Office Department. Competitive bidding was in fact rare, since the Shipping Board in establishing its steamship routes had taken care not to create services competing too closely with each other or with existing lines. As a result, practically all the bids specified or closely approximated

34. For example, the ships sold to companies holding mail contracts for a total price of $40,006,614 cost the government originally $519,190,612.15. Cf. U. S. Senate, 73rd Congress, 2nd session, *Hearings before a Special Committee on Investigation of Air Mail and Ocean Mail Contracts* (Washington, Government Printing Office, 1933), p. 3. (Hereafter cited as *Hearings* . . .) Certain companies got special "bargains." The Lykes Bros.-Ripley Steamship Co. paid $2,461,790 for ships on which the government had spent $1,444,147 in repairs over little less than three years. (*Ibid.*, p. 1381-2.) The Export Steamship Co. paid $1,071,431 for eighteen ships which had cost the government $1,825,718 in repairs over a four-year period. (*Ibid.*, p. 33.)

35. So rapid was the fall in ship values that in one year—from 1922 to 1923—the appraised value of the government's fleet fell from $2,360,000,000 to $230,000,000. Smith and Betters, *op. cit.*, p. 58-9.

36. Cf. *Hearings* . . . . , cited, p. 3. The world market price is here figured as the price which the purchasers would have had to pay for the vessels if unrestricted as to operation.

37. The remainder of the board's vessels were sold either unconditionally or for specific purposes. A considerable number were sold for scrapping, especially in the last few years. In many sales the board required the purchaser to recondition or modernize the vessels. A relatively small number of ships were allowed to be transferred to a foreign flag, since the board could legally sell for this purpose only vessels which were not necessary for the promotion and maintenance of an efficient American merchant marine and which could not be sold to American citizens. Such sales required a 5-2 vote of the board and a statement of reasons in the record.

38. The Comptroller, however, has ruled that ships must carry some mail on every voyage in order to be entitled to mail contract payments. Accordingly, a few companies were forced to give their personnel special instructions to see to it that no ship left without mail, even if it were necessary to post specially addressed letters for all the ports touched on the line. Cf. *Hearings* . . . , cited, p. 1231-32, and 1410. To remove the popular misconception as to the purpose of mail contracts, President Roosevelt has advocated conversion of the mail payments into direct subsidies, while the Shipping Board has recommended that subsidized routes be called henceforth "government contract routes." Cf. *New York Times*, November 10, 1933, and *Seventeenth Annual Report of the U. S. Shipping Board*, p. 8.

39. Saugstad, *op. cit.*, p. 64.

40. For a list of contracts, cf. *Annual Report of the Postmaster-General, Fiscal Year ended June 30, 1933*, table 49.

41. *Annual Report of the Postmaster-General, Fiscal Year ended June 30, 1933*, table 57. American vessels not under mail contract carry American mail at specified rates per pound, which exceed considerably those fixed by the International Postal Union and paid by the U. S. Post Office to foreign ships. For example, American ships receive 80 cents per pound for letters and cards, and 8 cents for other articles, as compared with rates of 26.3 cents and 3.5 cents paid to foreign ships on voyages over 1,500 miles. Cf. *Annual Report of the Postmaster-General, Fiscal Year ended June 30, 1929*, p. 36.

42. *Seventeenth Annual Report of the U. S. Shipping Board*, p. 36.

43. The Lykes Line. Cf. *Hearings* . . . . , cited, p. 1217.

44. *Annual Report of the Postmaster-General, Fiscal Year ended June 30, 1933*, table 50.

45. *Ibid.*, table 49.

46. In 1929 the President named an Interdepartmental Mail Contract Committee, consisting of the Postmaster-General, the chairman of the Shipping Board, and the Secretaries of the Navy and Commerce, to advise on all ocean mail contract certifications. Cf. Saugstad, *op. cit.*, p. 65.

the maximum rates per mile permitted under the law.[47] There was no possibility of adjusting the compensation to the requirements of the service as determined by the degree of competition or other conditions on the trade route. For example, one line received a mail subsidy of $1,587,444 over a five-year period, although even without this grant it would have made a net profit of $325,080.[48]

GOVERNMENT LOANS

The American merchant marine receives a subsidy in the form of loans for vessel construction and improvement at rates of interest below those prevailing for ordinary commercial loans. The amount of interest saved American shipowners in this way has been estimated by the Shipping Board at $33,587,684.[49] Up to June 30, 1933, the board had advanced out of its loan fund $147,123,224.57, of which $16,169,054.60 had been repaid.[50]

This survey does not exhaust the means through which the government aids American shipping. Mention should especially be made of the reservation of coastwise and intercoastal shipping to American vessels. This provision is particularly valuable to the American merchant marine, since it extends not only to a long continental coastline, but to Puerto Rico, Hawaii, Alaska and American Samoa as well.[51]

These various forms of government assistance have made possible the maintenance of a merchant marine which since the war has carried, on the average, about one-third of American foreign commerce. The Jones-White Act, moreover, stimulated new construction at a time when ship-building in other countries of the world was lagging. Protagonists of an American merchant marine are nevertheless disappointed that more vessels have not been built, and are alarmed at the large proportion of ships over-age or obsolescent.[52] From 1932 to 1933 the United States dropped from second to tenth place in the list of leading ship-building countries.[53]

PROFITEERING

Subsidized shipping companies have been accused of diverting a large part of the money intended for the upbuilding of the merchant marine to the payment of large dividends, salaries and expense allowances. Some of the most glaring of such abuses revealed by the special Senate Committee's investigation may be cited. One steamship executive[54] drew in two successive years well over $300,000 annually in salaries and expenses. From 1920 to 1932 almost $3,000,000 accrued to the president of another company[55] in the form of salaries, dividends and enhanced stock values. Net profits of over $7,000,000 were realized from 1922 to 1932 on a steamship line in which only $500 in cash had been originally invested.[56] One man actually received commissions totalling $698,750 on purchasing vessels from the Shipping Board for the companies of which he himself was an official.[57] From 1923 to 1932 four individuals profited to the extent of $14,690,528 from three government-aided lines.[58]

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47. For the rates per mile specified in the mail contracts, cf. American Bureau of Shipping, *The American Merchant Marine* (April 1933), p. 33-4. The maximum rates permitted by the Merchant Marine Act of 1928 are:

Class of ship	*Vessels with a gross tonnage not less than*	*Speed in ordinary weather (knots)*	*Compensation per nautical mile*
7	2,500	10	$1.50
6	4,000	10	2.50
5	8,000	13	4.00
4	10,000	16	6.00
3	12,000	18	8.00
2	16,000	20	10.00
1	20,000	24	12.00

48. The Lykes Line. *Hearings* . . . , cited, p. 1216.

49. *Ibid.*, p. 3. This amount assumes a commercial interest rate of 5½ per cent.

50. *Seventeenth Annual Report of the U. S. Shipping Board*, p. 30. According to information furnished by the U. S. Shipping Board Bureau, repayments on loans aggregated $23,661,618.78 on February 28, 1934, with $3,430,511.05 overdue. The Bureau recently adopted the policy of sequestering mail payments in order to insure payment of sums overdue. The loans have been made to thirty-three companies for the construction of 57 new vessels and the conversion and/or reconditioning of 40 old ships. *Ibid.*, p. 29. Loans may not cover more than three-fourths of the cost of construction or reconditioning.

Until February 2, 1931, the interest rate on loans for vessels to be operated in foreign trade was the lowest rate of yield on any governmental obligation issued subsequent to April 6, 1917, and not less than 5¼ per cent on vessels for the coastwise trade. Since, under a ruling of the Attorney-General, "the lowest rate of yield" was construed to mean the rate as reflected in current quotations on government bonds, the interest rates varied widely in practice—from as low as ¼ of one per cent to 3⅝ per cent. Largely because of suspicion that market quotations were occasionally manipulated for the specific purpose of lowering the interest rate on construction loans, Congress in 1931 specified a minimum rate of 3½ per cent on vessels for operation in American foreign trade. Cf. "General Inquiry into the American Merchant Marine and U. S. Shipping Board and Merchant Fleet Corporation Affairs," House of Representatives, 72nd Congress, 1st session, *Hearings before the Committee on Merchant Marine, Radio, and Fisheries* (Washington, Government Printing Office, 1932), p. 2-3 and 48.

51. Certain parts of the merchant marine program outlined in congressional enactments have never been carried out. In section 34 of the Act of 1920 Congress intended to pave the way for the imposition of discriminatory tonnage and import duties on foreign ships by authorizing the President to terminate existing treaties and conventions prohibiting the levying of such duties. Fearing retaliation, the President never acted on this authorization. In 1925 Congress also passed a Naval Reserve Act providing for the creation of a naval reserve force out of American officers and seamen serving in the merchant marine and granting one month's pay to members enrolled in this force, but no appropriations have ever been made for this purpose.

52. According to Senator Hugo L. Black: "If every ship contracted with the Government to be built should be constructed, by the year 1940 this Government would have a puny fleet engaged in foreign trade of less than 75 modern vessels." Cf. "Those U. S. Mail Contracts," radio address, January 24, 1934 (text published by *The Evening Star*, Washington, D. C.).

In June 1933 about 13.2 per cent of the tonnage of American ocean-going steamships and motorships (excluding Great Lakes vessels) was 20 years of age or more. This percentage compares not unfavorably with 19 per cent for Great Britain and Ireland, and 28 per cent for the whole world. On the other hand, only 9.9 per cent of American vessels were under 10 years old, as compared with 39 per cent for Great Britain and Ireland, and 28.4 per cent for the whole world. These percentages are calculated from figures in *Lloyd's Register of Shipping*, Vol. II, p. 1104-7.

53. *Lloyd's Register of Shipping, Annual Summary of the Mercantile Shipbuilding of the World for the year 1933.*

54. Mr. H. H. Herberman, president of the Export Steamship Co. Cf. *Hearings* . . . , cited, p. 13.

55. Mr. George Raymond, of the Columbia Steamship Co. *Ibid.*, p. 895.

56. The Admiral Oriental Line, owned by the Dollar interests. *Ibid.*, p. 1115-7, 1160.

57. Mr. R. Stanley Dollar. *Ibid.*, p. 1053, 1066, 1124.

58. Messrs. R. Stanley Dollar, J. Harold Dollar, H. Fleishhacker, and H. M. Lorber. *Ibid.*, p. 1162; $4,325,493 was withdrawn in cash and the remainder left in the business.

SHIPPING POLICIES OF FOREIGN COUNTRIES

Although no country is so liberal with its merchant marine aid as the United States, a number of leading maritime powers also give substantial support to shipping. Of these the chief are France, Italy and Japan.

FRANCE

The French government has long granted not only mail subventions for the maintenance of certain contract services, but also navigation and construction bounties.[59] However, the navigation bounties were discontinued in 1920; the construction bounties in 1930. France continues to support a number of steamship lines with subsidies which generally vary in amount according to the operating results of the lines. From 1922 to 1931 inclusive, about $41,192,907 was carried in the budget for this purpose.[60] Since 1928 the government has also sought to facilitate loans for shipbuilding by undertaking to pay part of the interest charge, but the annual amount available for this purpose has been restricted to 6,000,000 francs ($235,200).[61]

In the last two years government assistance has increased considerably. A thorough reorganization of the *Compagnie Générale Transatlantique* was begun in 1932 under official auspices. In February Parliament voted a temporary loan of 150,000,000 francs to cover the company's operating deficit for 1932, and in April authorized the government to guarantee a loan not exceeding 68,748,000 francs for the completion of its building program. In the reorganization of the company, finally approved by Parliament in July 1933, the government contributed 110 of the 150 million francs in new capitalization and acquired a majority on the board of directors. The annual subsidy for the next fourteen years was substantially increased to an amount varying between 50 and 150 million francs according to the yearly deficit.[62]

Finally, liberal aid to vessels not operating on subsidized lines is contemplated by the so-called Tasso bill now pending before Parliament.[63]

ITALY

The Italian merchant marine has been an object of government solicitude ever since the unification of Italy. The present subsidy system, inaugurated by the Fascist government in 1926, provides about 4,500,000,000 lire ($236,700,000) over a 21-year period for the maintenance of contract steamship services.[64] It is only fair, however, to point out that by far the largest part of this sum goes to support the so-called "indispensable services" which are almost entirely local in character, linking the Italian islands and colonies with the mainland. For the "useful services," connecting Italy with foreign ports, the government has spent about $3,000,000 a year since 1926.[65] As in France, additional assistance has been provided in the last two years. In 1932, after the merger under the Lloyd Triestino of the lines serving the Black Sea, the Eastern Mediterranean and the Far East, the annual subsidy for these services was practically doubled to a sum of 62,800,000 lire ($3,300,000).[66] In 1933 the Italian and South African governments agreed to support jointly a monthly Italian steamship service between the two countries; the former to pay £250,000 and the latter £150,000 annually.[67] By a law effective since January 1, 1932 the government has also made available 70,000,000 lire ($3,682,000) to subsidize over a two-year period freighters not engaged in contract services.

Various measures have been taken to aid shipbuilding. Since 1926 an annual appropriation of 26,100,000 lire ($1,368,000) has been made for specified bounties on domestic shipbuilding materials. In addition, a construction and repair bounty is paid on steel hulls, and on the propelling units, boilers and machinery installed in ships. An annual naval grant of 5,000,000 lire is furnished for strengthening hulls so as to permit the installation of 6-inch guns.[68]

Since 1927 government appropriations for all the contract services and the various construction bounties have averaged somewhat over $14,000,000 annually.[69]

JAPAN

Military considerations as well as dependence on foreign food and raw materials have dictated Japan's shipping policy. Since 1890 mail subventions have been granted

59. For a detailed account of French government aid, cf. Saugstad, *op. cit.*, p. 81-170.

60. Saugstad, *op. cit.*, p. 129.

61. *Ibid.*, p. 157-163. It should be mentioned also that French shipbuilding concerns are exempt from the business turnover tax.

62. *Fairplay* (weekly British shipping journal), July 13, 1933, p. 110-11. Cf. also Roger Nathan, "La Réorganisation Financière de la Compagnie Générale Transatlantique," *L'Europe Nouvelle*, September 30, 1933.

63. In order to bring about the re-engagement of unemployed seamen and the recommissioning of idle vessels, the government would be required by this bill to contribute from 10 to 30 per cent of the wages of French crews on vessels engaged in overseas and coasting trade as well as in deep-sea fishing, and to pay tonnage allowances, increasing with the speed of the vessel, for the period during which the ships remain in commission. The law has been endorsed by the Merchant Marine Committee of the Chamber. For details, cf. *Fairplay*, December 21, 1933, p. 555-6; January 4, 1934, p. 4.

64. Saugstad, *op. cit.*, p. 287.

65. *Ibid.*, p. 289-97.

66. Saugstad, *op. cit.*, Supplement No. 1.

67. *Commerce Reports*, October 28, 1933, p. 279.

68. Saugstad, *op. cit.*, p. 303-14. Out of the unexpended balance of construction bounty authorizations the government has since 1928 contributed to the interest charges on loans advanced for the construction of vessels not intended to be entered in any of the contract services. Thus it is paying 2½ of the 6½ per cent interest charged on the loans which permitted the building of the transatlantic liners, the *Conte di Savoia* and the *Rex*.

69. *Ibid.*, p. 309.

to two or three principal lines. Certain "ordered contract services" have also been subsidized. Construction and navigation bounties were introduced in 1896.[70] Although the construction bounties were repealed in 1917, subventions have been continued to the steel industry, largely for the production of shipbuilding materials.[71]

Cheap credit has been furnished to encourage shipbuilding. Through the government-controlled Industrial Bank of Japan, the Deposits Bureau—the repositary of public funds and postal savings—has extended loans to the shipping industry.[72] A law effective June 1, 1930 created a loan fund of ¥30,000,000 to aid in building large, fast cargo boats, and provided that the government would assume part of the interest charge on such loans.[73] On September 5, 1932 the government promulgated a law setting aside ¥11,000,000 to subsidize shipping concerns agreeing to build one ton of new ships for every two tons scrapped.[74]

GERMANY

Germany and Great Britain fall in the category of countries which have paid out relatively little in subsidies. The phenomenal progress of German shipping before the war was hardly attributable to government assistance, for the subventions granted in the form of mail contracts were not large.[75] The same is true of the post-war period, although the government paid out about 700,000,000 gold marks[76] to enable shipowners to replace the vessels which they had been compelled to surrender by the Treaty of Versailles.

Since 1931, however, Germany has departed rather radically from its previous policy. In 1932 the government brought about a merger of the North German Lloyd and the Hamburg-American Line and guaranteed these companies bank loans of 77,000,000 marks to cover maturities. At the same time it acquired representation on the merger's board of directors. Loans up to 7,000,000 marks were also guaranteed for owners of tramp freighters. Largely to relieve unemployment, a sum of 12,000,000 marks was set aside to subsidize the scrapping of 400,000 tons of obsolete vessels.[77] Finally, on May 26, 1933 the cabinet provided 20,000,000 marks to pay a navigation bounty and defray 20 per cent of the wages of the ship crews.[78] At present additional measures are reported under consideration.[79]

GREAT BRITAIN

Since the repeal in 1849 of the navigation acts, by which England had originally hoped to drive the Dutch off the seas, the British have relied almost entirely on their geographical position, industrial supremacy and maritime traditions to maintain predominance in merchant shipping. The cost of mail contracts has been small, and has not far exceeded the actual expense of carrying the mail.[80] Under its present contract the Cunard Company receives mail pay of only about £100,000 annually for its weekly transatlantic service, while the United States Lines receives no less than $1,753,061 for a similar service to Hamburg. From 1903 to 1928 the Admiralty gave an annual subvention of £150,000 to a few fast vessels, but this aid has been discontinued.[81] Indirectly the government has aided ship construction by guaranteeing loans aggregating £34,888,000 ($169,783,000) for shipbuilding firms.[82]

Recently there has been an outcry in Great Britain against foreign subsidies and a growing demand for retaliation. The British Chamber of Shipping, long an advocate of "free trade" in shipping, announced in a resolution adopted in December 1933 "that the time has arrived when as a temporary measure, subsidy may have to be met by subsidy . . . "[83] At the same time the Chamber forwarded to the government the report of its Special Committee on Tramp Shipping, advocating that British tramp freighters be granted an operating and laying-up subsidy.[84] The government, while reluctant to commit itself, has not remained deaf to this agitation. On December 13, 1933 Mr. Runciman, the president of the Board of Trade, promised that the subsidy question would be seriously considered.[85]

70. *Ibid.*, p. 332-40. Saugstad places the total budget allowances for the contract mail services and the navigation bounties during the fiscal year ending 1930 at ¥10,823,924 ($5,102,398).

71. *Ibid.*, p. 343-4.

72. *Ibid.*, p. 346-8. The steamship company, Kokusai Kisen Kaisha, received about ¥70,000,000 from this source.

73. *Ibid.*, p. 350.

74. *Fairplay*, January 5, 1933, p. 57.

75. Meeker, *op. cit.*, p. 95. Less than $50,000,000 in all was expended for contract mail services before the war. Cf. Saugstad, *op. cit.*, p. 176.

76. Priester, *Der Wiederaufbau der deutschen Handelschiffahrt* (Berlin, 1926), p. 70 *et seq.*

77. Dr. Hans Rehmke, "German Shipping in 1932," *Fairplay*, January 5, 1933.

78. *Fairplay*, June 1, 1933, p. 448.

79. *Ibid.*, January 5, 1934.

80. Saugstad, *op. cit.*, p. 195. From 1840 to 1900 Great Britain paid out on mail contracts a total of £48,128,000 or $283,906,000 (table in Meeker, *op. cit.*, p. 41). The budget for the fiscal year ending 1931 carried £756,570 or $3,681,850 for this purpose (Saugstad, p. 253-5).

81. Saugstad, *op. cit.*, p. 205.

82. This was done under the British Trade Facilities Acts, effective from 1921 to 1926 inclusive, and the Loans Guaranty Act of Northern Ireland, in force from 1922 to March 31, 1931. *Ibid.*, p. 256-61.

83. *Fairplay*, December 14, 1933, p. 491. Cf. also the speech of Alexander Shaw, chairman of the Peninsular and Oriental Navigation Company, at that company's last meeting. *Ibid.*, p. 503-4.

84. For the report of this Committee, cf. *The Times* (London), December 8, 1933. The report claimed that British tramp tonnage had declined more than 50 per cent from 1914 to 1933, while foreign tramp tonnage had increased about 33 per cent. It requested an annual operating subsidy of 10 s. per gross ton, to be paid on a pro rata basis for every voyage with cargo, or, if in ballast, genuinely undertaken to secure cargo. For vessels laid up a minimum period of thirty days an annual subsidy of 5 s. per gross ton was recommended. About £3,000,000 would be required annually.

85. *The Times* (London), December 14, 1933.

On February 8, 1934, the government announced that the Treasury would advance £3,000,000 to make possible the completion of the giant Cunard liner 534, and a sum not over £5,000,000 to build an additional ship (or ships). At the same time it was divulged that the Treasury had undertaken to loan £1,500,000 as working capital to the newly merged Cunard and White Star Lines.[86]

In addition to Great Britain, the Netherlands and the Scandinavian countries have been among the leading opponents of ship subsidies. For these countries shipping constitutes one of the most important sources of national income and a service which they are economically best equipped to perform. Granting practically no subsidies themselves, they feel keenly the threat of the nationalist shipping policies of other nations. Recently there has even been agitation for retaliatory subsidies. The Dutch government in 1932 established a maritime finance company for which it agreed to guarantee loans in case of necessity.[87]

INTERNATIONAL SHIPPING AGREEMENTS?

The increase in government assistance in various countries during the last few years and the desperate condition of the shipping industry have produced a widespread conviction that remedial action must be taken through the conclusion of international shipping agreements. The subsidy system tends more and more to constitute a vicious circle in which each new subsidy calls forth an offsetting one and creates a new obstacle to the restoration of shipping to a sound basis. The Preparatory Commission of Experts to the London Economic Conference concluded

> " . . . that it is impossible to return to sound conditions in the shipping industry so long as the uneconomic policy of government subsidies continues. This policy of excessive intervention requires to be checked by agreement between the governments. At the same time, certain possibilities of agreement might be considered with regard to the scrapping of old tonnage, the utilization of existing tonnage and the laying down of new ships."[88]

Following the commission's recommendations, the interested countries agreed for the first time to make ship subsidies a subject for international consideration. At the Conference the United Kingdom delegation proposed that "the countries concerned should move as rapidly as possible towards the diminution and ultimate abolition of state assistance to shipbuilding and ship operations on competitive routes."[89] The Norwegian and Dutch delegations, supported by Denmark and Sweden, advanced a similar suggestion to abolish all subsidies "other than such as may be necessary for the maintenance of its sea communications and the promotion of particular trades in which the State has special interests."[90] The countries committed to policies of state aid gave these direct attacks on subsidies a cool reception. The American representative especially criticized the vagueness of the concept "uneconomic subsidies." He pointed out that they were not the only cause of the present shipping crisis, and reiterated the determination of the United States to have a merchant marine.[91]

The advisability of tackling the subsidy problem by direct methods seems questionable to many. Not only does government assistance take such manifold forms that it would be well-nigh impossible to draft an international agreement sufficiently comprehensive, but the shipping policies of most nations are, and will presumably continue to be, dictated by political rather than economic considerations. Perhaps it will in the end prove more feasible to subject the shipping industry to some form of international planning, which would assure to every one of the chief maritime powers a fair proportion of the world's shipping, while leaving each free to grant such subsidies as it deems necessary for the maintenance of its share. If such a scheme were made effective, the necessity for large subsidies would be diminished, since the competitive element would be removed and freight rates would rise, thus making steamship lines more self-sustaining.

Although the London conference took no action of any kind, the French submitted a project deserving of close consideration. This proposal suggested that the conference

> (1) Should advise states urgently to invite the shipowners of the countries concerned to conclude international agreements for the operation of the great ocean routes under multilateral contract and to limit the tonnage of future construction, the Governments reserving the right to supervise the execution of such agreements;
> (2) Should suggest the joint operation, subject to the retention of the national flags, of the vessels mentioned in the agreements and the determination of routes, time-tables and international rates, regard being had to tonnage, speed and comfort of the boats named in the contract;
> (3) Should point out that the best practical method of control was to introduce a joint account covering the whole of the working receipts and expenses.[92]

86. *New York Times*, February 9, 1934.
87. *Fairplay*, January 5, 1933, p. 60.
88. League of Nations, Monetary and Economic Conference, *Draft Annotated Agenda* (Geneva, January 20, 1933), p. 33.
89. League of Nations, Monetary and Economic Conference, *Reports approved by the Conference on July 27th, 1933, and Resolutions adopted by the Bureau and the Executive Committee* (London, July 27th, 1933, p. 39).
90. *Ibid.*, p. 34.
91. Remarks of Fred, K. Nielsen, *ibid.*, p. 39-40.
92. *Ibid.*, p. 35.

This suggestion resembles recent proposals that governments take the initiative in organizing international ship cartels.[93]

An international agreement along the lines suggested by the French would be tantamount to an elaboration and improvement of the so-called steamship conferences—private agreements through which the steamship lines on practically every important world trade route have long striven to introduce a modicum of stability into international shipping. Most of these conference agreements, which are equivalent to industrial cartels, provide for the periodic determination of freight and passenger rates, often supplemented by the regulation of sailing dates. A number—increasing in recent times—go farther, and divide the traffic or the total revenue according to certain proportions revised from time to time. To increase the effectiveness of the agreements the members give freight rebates to these shippers contracting to patronize solely the conference lines. Frequently, payment of these rebates is deferred for a certain time so as to force the shipper to abide by his agreement, but this practice is forbidden in the United States by the Shipping Act of 1916.[94] American law does sanction the so-called "contract rate practice," under which those shippers who agree with the contracting carriers to furnish them all their shipments over a given period not exceeding a year are accorded lower rates.[95]

Lack of government participation and enforcement has greatly limited the stabilizing influence of these steamship conferences. The entrance of outside competition, or internal disagreement, may easily disrupt them. Furthermore, no conference can tackle the fundamental problem of surplus tonnage and the competitive building of bigger and faster liners unless assured that rational scrapping and replacement programs would meet with almost universal adoption. Intergovernmental action might make this possible. The governments of the countries interested in each trade route covered by a steamship conference might call on the lines serving the route to draw up agreements on freight rates, sailings, the scrapping and replacement of old vessels and, possibly, division of the traffic. If these agreements meet with approval, the governments concerned could guarantee them against infringement.

To make the existing conferences subject to intergovernmental sanction and approval would also provide a more effective means of safeguarding against the monopolistic and unfair practices of which member lines are frequently accused.[96] At present regulation is left to each country. By the Shipping Act of 1916 the American government requires all conference agreements applicable to American trade to be registered with and approved by the Shipping Board.[97] In addition, the board is charged with the enforcement of certain prohibitions against discrimination, deferred rebates, and the use of "fighting ships" to force out competition. It is difficult, however, for one country to make such regulation effective, since steamship conferences operate in other countries as well.

Before effective planning through steamship conferences can be carried out, some way of fitting tramp shipping into the scheme must be devised. Tramp vessels do not operate on regular routes, but are available for the carriage of bulk cargo to any part of the world. They perform a particularly useful economic function in supplementing regular line services during seasonal freight movements. A separate international arrangement applying to tramp shipping would therefore be necessary. Presumably such an agreement would need to provide for the scrapping of old and excess tonnage and to regulate the conditions on which "tramps" could operate on conference routes.

The technical and political obstacles to the conclusion of international shipping conventions are many. Yet there is widespread conviction that a determined attempt must be made to overcome them. The alternative is the continuation and aggravation of the nationalist policies and wasteful competition which have long been the bane of world shipping. A French authority recently declared:

> "Outside these two solutions: international organization of sailings and calls on each sea route, and quasi-universal accord without loophole for the scrapping of vessels older than twenty-five years, there is nothing that can save the fleets of commerce from complete general bankruptcy now approaching."[98]

93. Cf. statement of Robert C. Lee, Vice President of Moore & McCormack, *New York Herald Tribune*, December 22, 1933.

94. For a brief description of steamship conferences, together with an analysis of the way in which the shipping crisis has affected them, cf. Helander, *op. cit.*, p. 127-66; also F. P. Siegert, *Die Subventionen der Weltschiffahrt und ihre sozialökonomischen Wirkungen* (Berlin, Verlag von Julius Springer, 1930), p. 62-4.

95. U. S. Shipping Board, Docket No. 80, *The W. T. Rawleigh Company v. N. V. Stoomvaart Mij. "Nederland," et al.*

96. Only recently Senator Hugo L. Black asserted: "Our ships, subsidized with the money of the American taxpayer, have formed combinations with foreign ships, fixing freight rates so high as to place additional burdens upon American farm, mine and factory." Cf. radio address by the Hon. Hugo L. Black, January 24, 1934, cited.

97. On June 30, 1933, 101 approved agreements were on file with the board, as compared with only 83 in June 1931. *Seventeenth Annual Report of the U. S. Shipping Board*, p. 15.

98. M. René Moreux, editor, *Journal de la Marine Marchande*, quoted in *Fairplay*, October 5, 1933, p. 4.